



THE STATE  
of **ALASKA**  
GOVERNOR SEAN PARNELL

**Knik Arm Bridge and  
Toll Authority**

820 East 15<sup>th</sup> Avenue  
Anchorage, Alaska 99501  
Main: 907.269.6698  
Fax: 907.269.6697

January 15, 2014

RE: ADDENDUM NO. 1 to Request for  
Proposals RFP-K-14-01 (ADOT&PF RFP  
02541401)

EMAIL TO: All RFP recipients on record

The reference RFP package is hereby supplemented or clarified as follows:

**Audit or Communications**

The most recent audit communications to the Audit Committee of the Board of Directors of the Knik Arm Bridge and Toll Authority (KABATA) is being provided as an attachment to this addendum for consideration by prospective respondents to this RFP. No internal controls related matters were communicated by the auditors in prior years not reported in the current year communications.

**Preparation of Financial Statements, Footnotes Thereto and Audit Workpapers**

For clarity, KABATA confirms that it will be responsible for the drafting of the audited financial statements and footnotes thereto. The draft financial statements and footnotes will not be ready in their entirety until early September following the June 30, 2014 fiscal year end due to the need to finalize interagency charges and ascertaining accrual basis cut-off by KABATA. The State of Alaska Accounting System is on a modified accrual basis, and accepts detail transaction posting for the fiscal year for two months after year end. KABATA is a component unit of the state and a business type enterprise using the full accrual basis of accounting. Because of this relationship, the two months after year end need to pass before accrual basis audit work papers and financial statements can be finalized. Interim testing can commence shortly before or after the fiscal year end, as the majority of transactions will have been processed.

**Audit Adjustments**

There were no audit adjustments during any of the audited fiscal years to KABATA's financial statements. KABATA does prepare year-end accruals, deferrals and reclassifications to close detail transactions into the KABATA fund and to present financial statements under Generally Accepted Accounting Principles applicable to government business type enterprises.

**Clarification of item J. under section 1B "Compliance audit procedures for FHWA grant expenditures".**

KABATA is a recipient of federal aid highway funds under CFDA 20.205 – *Highway Planning and Construction*. This federal aid program is administered by the Alaska Department of Transportation and Public Facilities (ADOT&PF) as the Federal Highway Administration recognized State Transportation Agency. These federal aid funds are subject to compliance audit under OMB Circular A-133. Presently, this audit responsibility rests with the Alaska Division of Legislative Audit, along with all of the federal aid programs administered by ADOT&PF picked up under the state's single audit.

Proposals should not include A-133 compliance audit services in the proposed scope and fee. However, firms submitting should have expertise in A-133 compliance audits in the event the present arrangement changes. If these services are later added, audit fees will be separately negotiated.

All other terms and conditions remain unchanged.

Attachments.

**END OF ADDENDUM**

We appreciate your participation in this solicitation.

Sincerely,

A handwritten signature in dark ink, appearing to read "Kevin P. Hemenway", with a stylized flourish at the end.

Kevin P. Hemenway, CFO



KPMG LLP  
Suite 600  
701 West Eighth Avenue  
Anchorage, AK 99501

October 10, 2013

Audit Committee  
Knik Arm Bridge and Toll Authority

Ladies and Gentlemen:

In planning and performing our audit of the financial statements of Knik Arm Bridge and Toll Authority (Authority), a component unit of the State of Alaska, as of and for the year ended June 30, 2013, in accordance with auditing standards generally accepted in the United States of America, we considered the Authority's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

During our audit we noted certain matters involving internal control and other operational matters that are presented for your consideration. These comments and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve internal control or result in other operating efficiencies and are summarized as follows:

#### **Financial Systems and Staffing Requirements**

The Authority's staffing levels and accounting systems are adequate to perform the work required in its current stage of development. However, once the project progresses, there will be numerous other issues which will require additional staffing and may require the addition of new



Audit Committee  
Knik Arm Bridge and Toll Authority  
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systems or revisions to the current systems. These issues include development or acquisition of a project management system and a cash management system, more complicated accounting issues, adoption of formal policies specific to the Authority's needs regarding expenditure approval authority and increased volume of transactions.

Our audit procedures are designed primarily to enable us to form an opinion on the financial statements, and therefore may not bring to light all weaknesses in policies or procedures that may exist. We aim, however, to use our knowledge of the Authority's organization gained during our work to make comments and suggestions that we hope will be useful to you.

We would be pleased to discuss these comments and recommendations with you at any time. This communication is intended solely for the information and use of management, the audit committee, others within the organization, and the State of Alaska, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

KPMG LLP





KPMG LLP  
Suite 600  
701 West Eighth Avenue  
Anchorage, AK 99501

October 10, 2013

Audit Committee  
Knik Arm Bridge and Toll Authority

Ladies and Gentlemen:

We have audited the financial statements of Knik Arm Bridge and Toll Authority (Authority), a component unit of the State of Alaska as of June 30, 2013, and have issued our report thereon under date of October 10, 2013. Under our professional standards, we are providing you with the accompanying information related to the conduct of our audit.

#### **Our Responsibility under Professional Standards**

We are responsible for forming and expressing an opinion about whether the financial statements, that have been prepared by management with the oversight of the audit committee, are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles. We have a responsibility to perform our audit of the financial statements in accordance with professional standards. In carrying out this responsibility, we planned and performed the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. Because of the nature of audit evidence and the characteristics of fraud, we are to obtain reasonable, not absolute, assurance that material misstatements are detected. We have no responsibility to plan and perform the audit to obtain reasonable assurance that misstatements, whether caused by error or fraud, that are not material to the financial statements are detected. Our audit does not relieve management or the audit committee of their responsibilities.

In addition, in planning and performing our audit of the financial statements, we considered internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

We also have a responsibility to communicate significant matters related to the financial statement audit that are, in our professional judgment, relevant to the responsibilities of the audit committee in overseeing the financial reporting process. We are not required to design procedures for the purpose of identifying other matters to communicate to you.



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## **Other Information in Documents Containing Audited Financial Statements**

Our responsibility for other information in documents containing the Authority's financial statements and our auditors' report thereon does not extend beyond the financial information identified in our auditors' report, and we have no obligation to perform any procedures to corroborate other information contained in these documents. We have, however, read the other information included in the final draft of the Authority's comprehensive annual report, and no matters came to our attention that cause us to believe that such information, or its manner of presentation, is materially inconsistent with the information, or manner of its presentation, appearing in the financial statements.

## **Accounting Practices and Alternative Treatments**

### *Significant Accounting Policies*

The significant accounting policies used by the Authority are described in note 1 to the financial statements.

### *Qualitative Aspects of Accounting Practices*

We have discussed with the audit committee and management our judgments about the quality, not just the acceptability, of the Authority's accounting principles as applied in its financial reporting. The discussions generally included such matters as the consistency of the Authority's accounting policies and their application, and the understandability and completeness of the Authority's financial statements, which include related disclosures.

### *Unusual Transactions*

There were no unusual transactions entered into by the Authority during 2013 of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance on consensus.

## **Management Judgments and Accounting Estimates**

The preparation of the financial statements requires management of the Authority to make a number of estimates and assumptions relating to the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period.

Management estimated the amount of time each employee spent working on administrative activities related to the start-up of the Authority's activities and the amount spent on the design and construction of the Knik Arm Bridge and its appurtenant facilities (excluding P3 activities, which are based upon actual time spent). This estimate was used as a basis for the allocation of employee related expenditures between capital assets and operating expenses. We evaluated the key factors and assumptions used to estimate each employee's efforts in determining that the



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allocation between capital assets and operating expenses is reasonable in relation to the financial statements taken as a whole.

Costs related to the issuance of debt have been deferred for financial reporting purposes. The ultimate disposition of these costs is not currently determinable as it is unknown as to how much debt, if any, might be issued or whether the Authority will be reimbursed for a portion of these costs. In the future, some of these costs might be charged to expense once the uncertainties surrounding financing matters are resolved.

#### **Uncorrected and Corrected Misstatements**

In connection with our audit of the Authority's financial statements, we have not identified any significant financial statement misstatements that have not been corrected in the Authority's books and records as of and for the year ended June 30, 2013, and have communicated that finding to management.

#### **Disagreements with Management**

There were no disagreements with management on financial accounting, and reporting matters that, if not satisfactorily resolved, would have caused a modification of our auditors' report on the Authority's financial statements.

#### **Management's Consultation with Other Accountants**

To the best of our knowledge, management has not consulted with or obtained opinions, written or oral, from other independent accountants during the year ended June 30, 2013.

#### **Significant Issues Discussed, or Subject to Correspondence, with Management**

##### *Major Issues Discussed with Management prior to Retention*

We generally discuss a variety of matters with the audit committee and management each year prior to our retention by the audit committee as the Authority's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

##### *Material Written Communications*

Attached to this letter please find copies of the following material written communications between management and us:

1. Engagement letter; and
2. Management representation letter



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**Significant Difficulties Encountered during the Audit**

We encountered no significant difficulties in dealing with management in performing our audit.

**Confirmation of Auditor Independence**

We hereby confirm that as of October 10, 2013, we are independent accountants with respect to the Authority under all relevant professional and regulatory standards.

\* \* \* \* \*

This letter to the audit committee is intended solely for the information and use of the audit committee and management and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

**KPMG LLP**





**KPMG LLP**  
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701 West Eighth Avenue  
Anchorage, AK 99501

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Fax +1 907 265 1296  
Internet [www.us.kpmg.com](http://www.us.kpmg.com)

January 7, 2013

Knik Arm Bridge and Toll Authority  
820 East 15<sup>th</sup> Avenue  
Anchorage, Alaska 99501

Attention: Mr. Kevin Hemenway, Chief Financial Officer

Ladies and Gentlemen:

This letter (the Engagement Letter) confirms our understanding of our engagement to provide professional services to Knik Arm Bridge and Toll Authority.

#### **Objectives and Limitations of Services**

##### ***Audit Services***

We will issue a written report upon our audit of Knik Arm Bridge and Toll Authority's financial statements as set forth in Appendix I.

We have the responsibility to conduct and will conduct the audit of the financial statements in accordance with auditing standards generally accepted in the United States of America, with the objective of expressing an opinion as to whether the presentation of the financial statements, taken as a whole, conforms with U.S. generally accepted accounting principles.

In conducting the audit, we will perform tests of the accounting records and such other procedures, as we consider necessary in the circumstances, to provide a reasonable basis for our opinion on the financial statements. We also will assess the accounting principles used and significant estimates made by management, and evaluate the overall financial statement presentation.

Our audit of the financial statements is planned and performed to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. Absolute assurance is not attainable because of the nature of audit evidence and the characteristics of fraud. Therefore, there is a risk that material errors, fraud (including fraud that may be an illegal act), and other illegal acts may exist and not be detected by an audit of financial statements performed in accordance with the auditing standards generally accepted in the United States of America. Also, an audit is not designed to detect matters that are immaterial to the financial statements.



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Our report will be addressed to the board of directors of Knik Arm Bridge and Toll Authority. We cannot provide assurance that an unqualified opinion will be rendered. Circumstances may arise in which it is necessary for us to modify our report or withdraw from the engagement.

While our report may be sent to Knik Arm Bridge and Toll Authority electronically for your convenience, only the hard copy report is to be relied upon as our work product.

#### ***Internal Control over Financial Reporting***

In planning and performing our audit of the financial statements, we will consider Knik Arm Bridge and Toll Authority's internal control in order to determine the nature, timing, and extent of our audit procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

The objective of our audit of the financial statements is not to report on Knik Arm Bridge and Toll Authority's internal control and we are not obligated to search for material weaknesses or significant deficiencies as part of our audit of the financial statements. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

#### ***Registration Statements and Other Offering Documents***

Should Knik Arm Bridge and Toll Authority wish to include or incorporate by reference these financial statements and our audit reports thereon into a future filing under the Securities Act of 1933, or an exempt offering, prior to our consenting to include or incorporate by reference our reports on such financial statements, we would consider our consent to the inclusion of our reports and the terms thereof at that time. We will be required to perform procedures as required by the standards of the Public Company Accounting Oversight Board, including, but not limited to, reading other information incorporated by reference in the registration statement or other offering document and performing subsequent event procedures. Our reading of the other information included or incorporated by reference in the offering document will consider whether such information, or the manner of its presentation, is materially inconsistent with information, or the manner of its presentation, appearing in the financial statements. However, we will not perform procedures to corroborate such other information (including forward-looking statements). The specific terms of our future services with respect to future filings or other offering documents will be determined at the time the services are to be performed.



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***Our Responsibility to Communicate with the Audit Committee***

While the objective of our audit of the financial statements is not to report on Knik Arm Bridge and Toll Authority's internal control and we are not obligated to search for significant deficiencies or material weaknesses as part of our audit of the consolidated financial statements, we will communicate, in writing, significant deficiencies or material weaknesses to the audit committee to the extent they come to our attention.

We will report to the audit committee, in writing, the following matters:

- Corrected misstatements arising from the audit that could, in our judgment, either individually or in aggregate, have a significant effect on Knik Arm Bridge and Toll Authority's financial reporting process. In this context, corrected misstatements are proposed corrections of the financial statements that were recorded by management and, in our judgment, may not have been detected except through the auditing procedures performed.
- Uncorrected misstatements aggregated during the current engagement and pertaining to the latest period presented that were determined by management to be immaterial, both individually and in aggregate.
- Any disagreements with management or other significant difficulties encountered in performance of our audit.
- Other matters required to be communicated by auditing standards generally accepted in the United States of America.

We will also read minutes, if any, of audit committee meetings for consistency with our understanding of the communications made to the audit committee and determine that the audit committee has received copies of all material written communications between ourselves and management. We will also determine that the audit committee has been informed of i) the initial selection of, or the reasons for any change in, significant accounting policies or their application during the period under audit, ii) the methods used by management to account for significant unusual transactions, and iii) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

To the extent that they come to our attention, we will inform the appropriate level of management about any illegal acts, unless they are clearly inconsequential, material errors in the financial statements and any instances of fraud. Further, to the extent they come to our attention, we also will communicate directly to the audit committee illegal acts that come to our attention, unless they are clearly inconsequential, material errors in the financial statements and any



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instances of fraud that involve senior management or that, in our judgment, cause a material misstatement of the financial statements.

If, during the performance of our audit procedures, circumstances arise which make it necessary to modify our report or withdraw from the engagement, we will communicate to the audit committee our reasons for withdrawal.

### **Management Responsibilities**

The management of Knik Arm Bridge and Toll Authority is responsible for the fair presentation, in accordance with U.S. generally accepted accounting principles, of the financial statements and all representations contained therein. Management also is responsible for identifying and ensuring that Knik Arm Bridge and Toll Authority complies with laws and regulations applicable to its activities, and for informing us of any known material violations of such laws and regulations. Management also is responsible for preventing and detecting fraud, including the design and implementation of programs and controls to prevent and detect fraud, for adopting sound accounting policies, and for establishing and maintaining effective internal controls and procedures for financial reporting to maintain the reliability of the financial statements and to provide reasonable assurance against the possibility of misstatements that are material to the financial statements. Management is also responsible for informing us, of which it has knowledge, of all significant deficiencies or material weaknesses in the design or operation of such controls. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

Management of Knik Arm Bridge and Toll Authority also agrees that all records, documentation, and information we request in connection with our audit will be made available to us, that all material information will be disclosed to us, and that we will have the full cooperation of Knik Arm Bridge and Toll Authority's personnel. As required by the auditing standards generally accepted in the United States of America, we will make specific inquiries of management about the representations embodied in the financial statements and the effectiveness of internal control, and obtain a representation letter from management about these matters. The responses to our inquiries, the written representations, and the results of audit tests, among other things, comprise the evidential matter we will rely upon in forming an opinion on the financial statements.

Management is responsible for adjusting the financial statements to correct material misstatements and for affirming to us in the representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements being reported upon taken as a whole. Because of the importance of management's representations to the effective performance of our services, Knik Arm Bridge and Toll Authority will release KPMG LLP (KPMG) and its personnel from any claims, liabilities, costs,





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and expenses relating to our services under this letter attributable to any known misrepresentations in the representation letter referred to above.

### **Dispute Resolution**

Any dispute or claim arising out of or relating to this Engagement Letter or the services provided hereunder, or any other audit or attest services provided by or on behalf of KPMG or any of its subcontractors or agents to Knik Arm Bridge and Toll Authority or at its request, shall be submitted first to non-binding mediation (unless either party elects to forego mediation by initiating a written request for arbitration) and if mediation is not successful within 90 days after the issuance by one of the parties of a request for mediation then to binding arbitration in accordance with the Rules for Non-Administered Arbitration of the International Institute for Conflict Prevention and Resolution then in effect ("CPR Arbitration Rules"). Any issue concerning the extent to which any dispute is subject to arbitration, or any dispute concerning the applicability, interpretation, or enforceability of these dispute resolution procedures, including any contention that all or part of these procedures is invalid or unenforceable, shall be governed by the Alaska Revised Uniform Arbitration Act (Alaska Statute 09.43.300-09.43.595) and resolved by the arbitrators. By operation of this provision, the parties agree to forego litigation over such disputes in any court of competent jurisdiction.

Mediation, if selected, may take place at a location to be designated by the parties using Mediation Procedures of the International Institute for Conflict Prevention and Resolution, with the exception of paragraph 2 (Selecting the Mediator). Arbitration shall take place in Anchorage, Alaska. The arbitration panel shall have no power to award non-monetary or equitable relief of any sort except as provided in CPR Rule 13 (Interim Measures of Protection). Damages that are inconsistent with any applicable agreement between the parties, that are punitive in nature, or that are not measured by the prevailing party's actual damages shall be unavailable in arbitration or any other forum. In no event, even if any other portion of these provisions is held to be invalid or unenforceable, shall the arbitration panel have power to make an award or impose a remedy that could not be made or imposed by a court deciding the matter in the same jurisdiction.

Either party may seek to enforce any written agreement reached by the parties during mediation, or to confirm and enforce any final award entered in arbitration, in the superior court for the State of Alaska, Third Judicial District at Anchorage. Notwithstanding the agreement to such procedures, either party may seek equitable relief to enforce its rights in the superior court for the State of Alaska, Third Judicial District at Anchorage.

### **Other Matters**

This letter shall serve as Knik Arm Bridge and Toll Authority's authorization for the use of e-mail and other electronic methods to transmit and receive information, including confidential information, between KPMG and Knik Arm Bridge and Toll Authority and between KPMG and



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outside specialists or other entities engaged by either KPMG or Knik Arm Bridge and Toll Authority. Knik Arm Bridge and Toll Authority acknowledges that e-mail travels over the public Internet, which is not a secure means of communication and, thus, confidentiality of the transmitted information could be compromised through no fault of KPMG. KPMG will employ commercially reasonable efforts and take appropriate precautions to protect the privacy and confidentiality of transmitted information.

Further, for purposes of the services described in this letter only, Knik Arm Bridge and Toll Authority hereby grants to KPMG a limited, revocable, non-exclusive, non-transferable, paid up and royalty-free license, without right of sublicense, to use all names, logos, trademarks and service marks of Knik Arm Bridge and Toll Authority solely for presentations or reports to Knik Arm Bridge and Toll Authority or for internal KPMG presentations and intranet sites.

KPMG is a limited liability partnership comprising both certified public accountants and certain principals who are not licensed as certified public accountants. Such principals may participate in the engagements to provide the services described in this letter.

The work papers for this engagement are the property of KPMG. In the event KPMG is requested pursuant to subpoena or other legal process to produce its documents and/or testimony relating to this engagement for Knik Arm Bridge and Toll Authority in judicial or administrative proceedings to which KPMG is not a party, Knik Arm Bridge and Toll Authority shall reimburse KPMG at standard billing rates for its professional time and expenses, including reasonable attorney's fees, incurred in responding to such requests.

#### ***Additional Reports and Fees for Services***

Appendix I to this letter lists the additional reports we will issue as part of this engagement and our fees for professional services to be performed per this letter.

In addition, fees for any special audit-related projects, such as research and/or consultation on special business or financial issues, will be billed separately from the audit fees for professional services set forth in Appendix I and may be subject to written arrangements supplemental to those in this letter.

\* \* \* \* \*

Our engagement herein is for the provision of annual audit services for the financial statements and for the periods described in Appendix I, and it is understood that such services are provided as a single annual engagement. Pursuant to our arrangement as reflected in this letter, we will provide the services set forth in Appendix I as a single engagement for each of Knik Arm Bridge and Toll Authority's subsequent fiscal years until either the audit committee or we terminate this agreement, or mutually agree to the modification of its terms. The fees for each subsequent year



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will be annually subject to negotiation and approval by the management of Knik Arm Bridge and Toll Authority.

In accordance with your instructions, we have forwarded a copy of this letter to Angela Rodell, Chairman of the Audit Committee.

We shall be pleased to discuss this letter with you at any time. For your convenience in confirming these arrangements, we enclose a copy of this letter. Please sign and return it to us.

Very truly yours,

KPMG LLP

Michael L. Hayhurst  
Partner

MLH:mj:sw

cc: Chairman of the Audit Committee

ACCEPTED:

Knik Arm Bridge and Toll Authority

  
\_\_\_\_\_  
Authorized Signature

CFO  
\_\_\_\_\_  
Title

2-13-2013  
\_\_\_\_\_  
Date

## **Appendix I**

### **Fees for Services**

Based upon our, proposal dated February 5, 2010 and discussions with management our fees for services we will perform are estimated as follows:

Audit of the statement of financial position of Knik Arm  
Bridge and Toll Authority as of June 30, 2013 and 2012, the  
related statements of revenues, expenses and changes  
in net assets, and cash flows for the years then ended

\$ [REDACTED]

The above estimates are based on the level of experience of the individuals who will perform the services. In addition, expenses for items such as travel, telephone, postage, and typing, printing, and reproduction of financial statements are billed for reimbursement as incurred. Circumstances encountered during the performance of these services that warrant additional time or expense could cause us to be unable to deliver them within the above estimates. We will endeavor to notify you of any such circumstances as they are assessed.

Where KPMG is reimbursed for expenses, it is KPMG's policy to bill clients the amount incurred at the time the good or service is purchased. If KPMG subsequently receives a volume rebate or other incentive payment from a vendor relating to such expenses, KPMG does not credit such payment to the client. Instead, KPMG applies such payments to reduce its overhead costs, which costs are taken into account in determining KPMG's standard billing rates and certain transaction charges which may be charged to clients.





THE STATE  
of **ALASKA**  
GOVERNOR SEAN PARNELL

Knik Arm Bridge and  
Toll Authority

820 East 15<sup>th</sup> Avenue  
Anchorage, Alaska 99501  
Main: 907.269.6698  
Fax: 907.269.6697

October 10, 2013

KPMG LLP  
701 West 8<sup>th</sup> Avenue, Suite 600  
Anchorage, AK 99501

Ladies and Gentlemen:

We are providing this letter in connection with your audit of the financial statements of the Knik Arm Bridge and Toll Authority (Authority), a component unit of the State of Alaska, as of and for the years ended June 30, 2013 and 2012, for the purpose of expressing opinions as to whether these financial statements present fairly, in all material respects, the respective financial positions, changes in financial positions, and, where applicable, cash flows thereof in conformity with U.S. generally accepted accounting principles. We confirm that we are responsible for the fair presentation in the financial statements of financial position, changes in financial position, and cash flows in conformity with U.S. generally accepted accounting principles. We are also responsible for establishing and maintaining effective internal control over financial reporting.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purposes of appropriately informing ourselves, as of October 10, 2013, the following representations made to you during your audit:

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated January 7, 2013, for the preparation and fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles.
2. We have made available to you:
  - a. All records, documentation, and information that is relevant to the preparation and fair presentation of the financial statements.

- b. Additional information that you have requested from us for the purpose of the audit.
  - c. Unrestricted access and the full cooperation of personnel within the entity from whom you determined it necessary to obtain audit evidence.
  - d. All minutes of the meetings of directors, and committees of directors, or summaries of actions of recent meetings for which minutes have not yet been prepared.
- 3. Except as disclosed to you in writing, there have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
- 4. There are no:
  - a. Violations or possible violations of laws or regulations, whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.
  - b. Unasserted claims or assessments that our lawyers have advised us are probable of assertion and must be disclosed in accordance with paragraphs 96 – 113 of Governmental Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.
  - c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by GASB Statement No. 62, paragraphs 96 – 113.
  - d. Material transactions, for example, grants and other contractual arrangements, that have not been properly recorded in the accounting records underlying the financial statements.
  - e. Events that have occurred subsequent to the date of the statement of net position and through the date of this letter that would require adjustment to or disclosure in the financial statements.
- 5. All known actual or possible litigation and claims have been accounted for and disclosed in accordance with GASB Statement No. 62, paragraphs 96 – 113.
- 6. We did not identify any uncorrected misstatements that are material, either individually or in the aggregate, to the financial statements taken as a whole.

7. We believe that the Authority is a development stage enterprise as defined in Statement of Financial Accounting Standards No. 7, *Accounting and Reporting by Development Stage Enterprises*.
8. We acknowledge our responsibility for preventing and detecting fraud, including the design and implementation of programs and controls to prevent and detect fraud; for adopting sound accounting policies; and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements and to provide reasonable assurance against the possibility of misstatements that are material to the financial statements whether due to error or fraud.
9. There are no deficiencies, significant deficiencies, or material weaknesses in the design or operation of internal control over financial reporting of which we are aware, which could adversely affect the Authority's ability to initiate, authorize, record, process, or report financial data. We have applied the definitions of a "significant deficiency" and a "material weakness" in accordance with the definitions in AU-C Section 265, *Communicating Internal Control Related Matters Identified in an Audit*.
10. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
11. We have no knowledge of any fraud or suspected fraud affecting the Authority involving:
  - a. Management
  - b. Employees who have significant roles in internal control over financial reporting, or
  - c. Others where the fraud could have a material effect on the financial statements.
12. We have no knowledge of any allegations of fraud or suspected fraud affecting the Authority received in communications from employees, former employees, analysts, regulators, or others.
13. We have no plans or intentions that may materially affect the carrying value or classification of assets, deferred outflows of resources, liabilities, and deferred inflows of resources.
14. We have no knowledge of any officer or Director of the Authority, or any other person acting under the direction thereof, having taken any action to fraudulently influence, coerce, manipulate, or mislead you during your audit.

15. The following have been properly recorded or disclosed in the financial statements:
  - a. Related party relationships and transactions of which we are aware in accordance with the requirements of U.S. generally accepted accounting principles, including sales, purchases, loans, transfers, leasing arrangements, guarantees, ongoing contractual commitments, and amounts receivable from or payable to related parties.
  - b. Guarantees, whether written or oral, under which the Authority is contingently liable.
  - c. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances and lines of credit or similar arrangements.
  - d. Agreements to repurchase assets previously sold, including sales with recourse.
  - e. Changes in accounting principle affecting consistency.
  - f. The existence of and transactions with joint ventures and other related organizations.
16. The Authority has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets, nor has any asset been pledged as collateral.
17. The Authority has complied with all aspects of laws, regulations, contractual agreements, and grants that may affect the financial statements, including noncompliance.
18. Management is responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to the Authority. Management has identified and disclosed to you all laws, regulations, and provisions of contracts and grant agreements that have a direct and material effect on the determination of financial statement amounts.
19. The Authority's reporting entity includes all entities that are component units of the Authority. Such component units have been properly presented as either blended or discrete. Investments in joint ventures in which the Authority holds an equity interest have been properly recorded on the statement of net position. The financial statements disclose all other joint ventures and other related organizations.



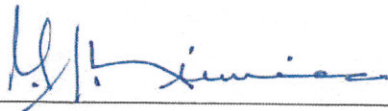
20. The financial statements properly classify all funds and activities, including governmental funds, which are presented in accordance with the fund type definitions in GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.
21. All funds that meet the quantitative criteria in GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, for presentation as major are identified and presented as such, and all other funds that are presented as major are considered to be particularly important to financial statement users by management.
22. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
23. Receivables reported in the financial statements represent valid claims against debtors arising on or before the date of the statement of net position and have been appropriately reduced to their estimated net realizable value.
24. Deposits and investment securities are properly classified and reported.
25. The following information about financial instruments with off-balance-sheet risk and financial instruments with concentrations of credit risk has been properly disclosed in the financial statements:
  - a. Extent, nature, and terms of financial instruments with off-balance-sheet risk;
  - b. The amount of credit risk of financial instruments with off-balance-sheet credit risk, and information about the collateral supporting such financial instruments; and
  - c. Significant concentrations of credit risk arising from all financial instruments and information about the collateral supporting such financial instruments.
26. We believe that all material expenditures or expenses that have been deferred to future periods will be recoverable.
27. Capital assets, including infrastructure assets, are properly capitalized, reported and, if applicable, depreciated.
28. The Authority has no:
  - a. Commitments for the purchase or sale of services or assets at prices involving material probable loss.

- b. Material amounts of obsolete, damaged, or unusable items included in the inventories at greater than salvage values.
  - c. Loss to be sustained as a result of other-than-temporary declines in the fair value of investments.
- 29. We believe that the actuarial assumptions and methods used to measure financial statement liabilities and costs associated with pension and other post-employment benefits and to determine information related to the Authority's funding progress related to such benefits for financial reporting purposes are appropriate in the Authority's circumstances and that the related actuarial valuation was prepared in conformity with U.S. generally accepted accounting principles.
- 30. The Authority has identified and properly accounted for and presented all deferred outflows of resources and deferred inflows of resources.
- 31. Components of net position (net investment in capital assets; restricted; and unrestricted) and fund balance components (nonspendable; restricted; committed; assigned; and unassigned) are properly classified and, if applicable, approved.
- 32. The Authority has identified and properly accounted for all nonexchange transactions.
- 33. Special and extraordinary items are appropriately classified and reported.
- 34. The financial statements disclose all of the matters of which we are aware that are relevant to the entity's ability to continue as a going concern, including significant conditions and events, and our plans.
- 35. The Authority has presented all required supplementary information. This information has been measured and prepared within prescribed guidelines.
- 36. The Authority has complied with all applicable laws and regulations in adopting, approving, and amending budgets.
- 37. The Authority's expenditures of federal awards will be included within the State of Alaska's federal single audit for the year ending June 30, 2013.

Further, we confirm that we are responsible for the fair presentation in the financial statements of net position, changes in net position, and cash flows, and the related notes to the financial statements, in conformity with U.S. generally accepted accounting principles. We are also responsible for establishing and maintaining effective internal control over financial reporting.

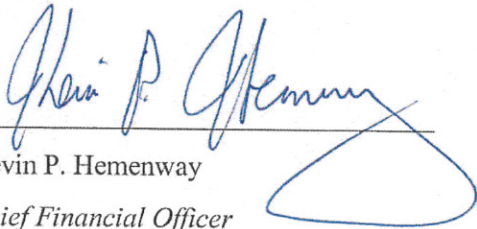
Very truly yours,

Knik Arm Bridge and Toll Authority

A handwritten signature in blue ink, appearing to read "A. J. Niemiec", written over a horizontal line.

Andrew J. Niemiec

*Executive Director*

A handwritten signature in blue ink, appearing to read "Kevin P. Hemenway", written over a horizontal line. A large, loopy flourish extends from the end of the signature.

Kevin P. Hemenway

*Chief Financial Officer*